KIRBY McINERNEY LLP

825 Third Avenue
New York, NY 10022
212.371.6600
Fax. 212.751.2540
WWW.KMLLP.COM
Of counsel
Roger W. Kirby
Alice McInerney

BY HAND AND ECF DELIVERY

February 7, 2014

The Honorable Naomi Reice Buchwald
United States District Judge
United States Courthouse
500 Pearl Street
New York, New York 10007-1312

Re: *In re Libor-Based Financial Instruments Antitrust Litig.*,
MDL No. 2262, Case No. 11 Civ. 2613

Dear Judge Buchwald:

We represent the Exchange-Based Plaintiffs in the above-referenced action. At oral argument on February 4, 2014, with respect to Plaintiffs' trader-based manipulation claims, Your Honor posed two questions. First:

> Defendants maintain that even giving plaintiffs the greatest possible impact of a Barclays or Rabobank submission, that the maximum potential impact would be .00125, which is too small to move the price of a Eurodollar's futures contract, which moves in minimum price increments of .0025. Is their math right or wrong?

Tr. 5:17-23. And Second:

> Tell me which specific example for trades you maintain, after all the back and forth in the briefing, are the best examples that you wish to rely on. And I'd like the same information from the defense.

Tr. 10:17-20.

Plaintiffs wish to clarify their answers to both questions. As to the first question, Plaintiffs agree that the minimum tick size for the daily trading price of the nearby Eurodollar futures contract, which settles to a market price, is 0.25 basis points. However, there are two separate tick sizes when it comes to Eurodollar futures contract pricing. One is the minimum daily settlement and trading price tick size, the other is the final settlement price tick size. The minimum tick size for the final settlement price of the Eurodollar Futures contracts is only 0.01 basis points (or 25 cents per contract). *See* CME Rulebook, Chapter 452, Three-Month

Eurodollar Futures, 45202. *Trading Specifications*; 45203. *Settlement Procedures*.[1] Consequently, almost all LIBOR manipulations will meet this tiny final settlement price tick size on the settlement date, even if they do not meet the minimum daily settlement trade pricing tick size.

As stated in oral argument, March 17, 2008 is a day on which Plaintiffs can plausibly alleged that Rabobank manipulated LIBOR, and Plaintiffs were harmed. *See* Tr. 10:24-25 and ECF No. 523 at 6-7 (showing that FTC Capital GmbH and Atlantic Trading sold Eurodollar futures into a suppressed market). Plaintiffs have demonstrated that they have standing to allege damages on March 17, 2008, which is also a Eurodollar futures contract settlement date. On March 17, 2008, when the March 2008 futures contract matured, the open interest was 1,014,671 contracts. All maturing contracts are cash settled based on LIBOR on that date. Given cash settlement, Defendants' manipulation on this date immediately led to damages for all maturing contracts. The magnitude of the estimated manipulation on this date is 0.63 basis points using Defendants' method. (Defendants failed to show this but-for LIBOR calculation for this date in their briefing, presumably because of the large impact the manipulation had on LIBOR.) Since the size of each Eurodollar Futures contract is $1,000,000, each basis point manipulation causes $25 damage per contract ($1,000,000 times 0.0001 times 0.25). At a minimum, the impact on March 17, 2008 as a result of manipulation of the LIBOR on March 17, 2008 for all the contracts maturing on March 17, 2008 can be computed as follows: Given 1,014,671 contracts maturing, times $25 damage for each basis point for each contract, times 0.63 basis point manipulation results in damages on this single date on that one contract to be about $16 million. This simple example also illustrates the economic materiality of even the smallest of manipulations.

As to the second question, Plaintiffs wish to direct the Court to the date of September 29, 2005, which shows that manipulations of LIBOR less than or equal to 0.125 basis points still affect the pricing of Eurodollar futures contracts, even if the minimum trading price tick size is 0.25 basis points. As explained in oral argument, even tiny manipulations (much smaller than 0.25 basis points) can result in 0.25 basis point manipulation in the Eurodollar Futures contract prices. *See* Tr. 9:24 – 10:7. If LIBOR happens to have a value such that the Eurodollar futures price is close to a tipping point, even a tiny manipulation can help tip the Eurodollar futures price up or down, resulting in a 0.25 basis point manipulation of the Eurodollar futures price. Thus, no manipulation is too small to be ignored at face value.

As an example, Plaintiffs can plausibly allege that Barclays manipulated LIBOR on September 29, 2005, and that Plaintiff Atlantic Trading was harmed by the suppression of Eurodollar futures contract prices. *See* ECF No. 439 at 4 and ECF No. 467 (and Exhibit C thereto). Defendants use what they term maximum hypothetical impact and compute the possible manipulation amount to be -0.00125 percentage points for this date. *See* ECF No. 479 at 6. They then argue that because -0.00125 is less than the minimum trading tick size, 0.00250,

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[1] http://www.cmegroup.com/rulebook/CME/V/450/452/452.pdf. *See also* CME Group *Eurodollar Futures: The Basics* (http://www.cmegroup.com/trading/interest-rates/files/eurodollar-futures-reference-guide.pdf).

it would not have affected the pricing of Eurodollar futures prices.

However, as a result of Barclays' alleged manipulation on September 29, 2005, the BBA published a LIBOR equal to 4.05438 on this date. Using the CME's rules, this would be first rounded to four decimal places, to 4.0544 and then subtracted from 100 to compute the CME price, of 95.9456. Rounding this to the closest 0.25 basis points, the CME daily settlement price would be 95.9450.

What would have happened on this date had Barclays not manipulated LIBOR by plus 0.125 basis points? First, the BBA would have published the LIBOR as 4.05313. The CME would round this to 4.0531 and compute a Eurodollar futures price of 95.9469. If rounded to the nearest 0.25 basis points, this daily settlement price would now be 95.9475, which is 0.25 basis points higher than the manipulated price. Therefore, even a small potential manipulation equal to plus 0.00125 percentage points or even smaller in LIBOR can result in price manipulations of 0.0025 in Eurodollar futures prices.

In addition to September 27, 2007 and March 17, 2008 cited to in oral argument, examples of additional dates with large Eurodollar futures price manipulations, using Defendants' methodology, which assumes a single false bid on a given date and no collusion, include: September 10, 2007, with 0.25 basis points; April 7, 2006, with 0.25 basis points; and November 22, 2005, with 0.25 basis points. These examples demonstrate not only a material impact caused by Defendants' manipulation, but also that Plaintiffs Atlantic Trading, 303030 Trading and FTC Capital GmbH have standing to assert CEA claims for trader-based manipulation.

Finally, Defendants also argue (wrongly) that manipulating LIBOR only affects settlement prices not trading prices. Given a chance, Plaintiffs will demonstrate the falsity of this argument both conceptually as well as empirically. However, this argument is also moot for another reason. Plaintiffs can plausibly allege that Rabobank and Barclays manipulated Eurodollar futures prices on settlement dates as well as non-settlement dates.

Respectfully submitted,

/s/ Christopher Lovell
Christopher Lovell, Esq.
LOVELL STEWART HALEBIAN
JACOBSON LLP
61 Broadway, Suite 501
New York, NY 10006

/s/ David E. Kovel
David E. Kovel, Esq.
KIRBY McINERNEY LLP
825 Third Avenue
New York, NY 10022

Interim Co-Lead Counsel for Exchange-Based Plaintiffs

cc: All counsel of record (by electronic filing)